

Message Text

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C O N F I D E N T I A L PEKING 1552

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FOR EA/PRCM

E.O. 11652: GDS
TAGS: EEWT EPAP CH US ETRD
SUBJECT: POTENTIAL TEXTILE PROBLEMS

REF: STATE 195682

1. WE ARE MOST CONCERNED OVER ITEM REFTTEL REGARDING GROWING COMPLAINTS FROM US INDUSTRY AND FROM OTHER FOREIGN SUPPLIERS UNDER VOLUNTARY RESTRAINT AGREEMENTS ABOUT RISING PRC TEXTILE SHIPMENTS TO THE US. WE ARE AWARE THAT THIS IS A PROBLEM THAT EVENTUALLY WILL HAVE TO BE FACED, BUT WE ALSO BELIEVE THAT ACTION AT THIS TIME TO RESTRAIN TEXTILE IMPORTS FROM THE PRC COULD BE VERY DETRIMENTAL TO OUR BILATERAL RELATIONS. IT WOULD CERTAINLY BE REGARDED BY PEKING AS A VIOLATION OF THE SPIRIT OF THE SHANGHAI COMMUNIQUE, AND WOULD BE VIEWED BY THEM AS PARTICULARLY UNFAIR IN THE LIGHT OF THEIR COMPETITIVE DISADVANTAGE OWING TO THE LACK OF MFN TREATMENT. JUDGING FROM COMMENTS MADE TO US BY US IMPORTERS, THE HIGHER TARIFF EFFECTIVELY EXCLUDES OR SEVERELY LIMITS PRC EXPORTS TO THE US IN A VERY LARGE NUMBER OF TEXTILE PRODUCTS.

2. MOREOVER, AN EFFORT TO RESTRAIN PRC SHIPMENTS NOW
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COULD ALSO IMPAIR THE BENEFICIAL TRADE RELATIONSHIP WHICH

WE PRESENTLY ENJOY. THE CHINESE FROM TIME TO TIME HAVE HINTED THAT IN THE ABSENCE OF EFFORTS TO REDRESS THE BALANCE OF TRADE, WHICH IS SO OVERWHELMINGLY IN THE US FAVOR, THEY MIGHT DIVERT POTENTIAL PURCHASES FROM THE US TO OTHER SOURCES OF SUPPLY. WHILE WE CANNOT DOCUMENT IT, WE SUSPECT THIS IS ALREADY BEING DONE IN THE CASE OF SOME MACHINERY AND EQUIPMENT PURCHASES. ALSO, THEY WILL CERTAINLY NOT OVERLOOK THE FACT THAT ONE OF OUR MOST IMPORTANT EXPORTS TO CHINA, AND THE ONE AGRICULTURAL COMMODITY WITH LONG TERM YEAR-IN-YEAR-OUT POTENTIAL, IS COTTON.

3. WHILE WE DO NOT KNOW THE DETAILS OF THE BUILDUP IN PRESSURES FOR ACTION ON TEXTILES NOW, AND THUS CANNOT MAKE SPECIFIC COMMENTS, WE FEEL COMPELLED TO POINT OUT THAT THERE HAS BEEN A SHARP DECLINE IN US PURCHASES (I.E. CONTRACTS) OF PRC TEXTILES THIS YEAR. THE DEPARTMENT MAY WISH TO MAKE USE OF THIS FACT IN ANY RELEVANT DISCUSSIONS. AS WE NOTED IN OUR CANTON FAIR CABLE THIS SPRING (PEKING 896, PARA 3), THERE WAS A SHARP DROP IN US PIECE GOODS PURCHASES AT THAT FAIR, AND A HIGH RANKING CHINATEX OFFICIAL TOLD US THAT THIS DECLINE HAD BEGUN EVEN BEFORE THE FAIR. US PIECE GOODS PURCHASES WERE "VERY GOOD" AT THE FALL 1973 CANTON FAIR, HE SAID, AND "BUSINESS WAS ALSO NOT BAD IN JANUARY AND FEBRUARY OF 1974." THEREAFTER, HE SAID, THE US PIECE GOODS MARKET WEAKENED, AND SINCE CHINATEX REFUSED TO LOWER ITS PRICES AMERICAN BUYERS STOPPED BUYING IN SIGNIFICANT AMOUNTS.

4. SINCE THE SPRING FAIR, THE CHINESE HAVE CONTINUED TO PRICE THEMSELVES OUT OF THE US PIECE GOODS MARKET. TO OUR KNOWLEDGE, ONLY TWO US FIRMS HAVE SENT BUYING MISSIONS TO PEKING FOR TEXTILES NEGOTIATIONS IN THE PAST SIX MONTHS, BOTH VERY RECENTLY (PEKING 1525). ONE FOUND CHINESE PRICES STILL TOO HIGH AND CONSEQUENTLY BOUGHT VERY LITTLE, AND THE OTHER WAS NOT INTERESTED IN BUYING FOR THE US MARKET. WE BELIEVE, THEREFORE, THAT WHILE US IMPORTS FROM CHINA MAY HAVE GROWN RAPIDLY THIS YEAR, REFLECTING HEAVY PURCHASES EARLIER, THE SITUATION HAS TURNED AROUND SINCE MARCH 1974 AND SINO-US TRADE FIGURES WILL PROBABLY

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REFLECT THIS BY THE END OF THE YEAR OR SOMETIME EARLY IN 1975.

5. IN ORDER THAT WE MAY BE BETTER ABLE TO PROVIDE SOME INPUT ON THE TEXTILE PROBLEM, IT IS IMPORTANT THAT THE DEPARTMENT SEND US FULL BACKGROUND INFORMATION ON THE CURRENT INTERNATIONAL AGREEMENT (WE CANNOT FIND A COPY IN OUR FILES), THE CATEGORIES IN WHICH PRC SHIPMENTS ARE PARTICULARLY TROUBLESOME, THE DISCUSSIONS

PRCM HAS BEEN HVING IN THE DEPARTMENT ON THIS SUBJECT,
ETC. ALSO, IF THE DEPARTMENT WISHES, WE COULD APPROACH
A FEW TRUSTED COLLEAGUES ON A CONFIDENTIAL BASIS (E.G.
BRITISH AND CANADIANS) IN ORDER TO LEARN WHAT WE CAN
ABOUT THE RESTRAINT ARRANGEMENTS THEIR COUNTRIES HAVE
WITH THE PRC.
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